



THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

MAR 19 2003

The Honorable Duncan Hunter  
Chairman, Committee on Armed Services  
House of Representatives  
Washington, DC 20515-6035

Dear Mr. Chairman:

This report responds to language contained in the FY 2001 National Defense Authorization Act Conference Report (106-945) regarding accrual financing for health care benefits for Medicare-eligible retirees. Congress requested a report on the strategies for determining the periodicity and amount of payments from the Department of Defense Medicare-Eligible Retiree Health Care Fund, including any recommendations and legislative provisions necessary to implement accrual funding.

The report describes the DoD Board of Actuaries determined payments into the Fund, the methodologies for payment from the Fund and the expected receipts from the Fund to pay for Medicare eligible health care benefits in both the Military Treatment Facilities and in the purchased care sector.

Thank you for your continued interest in the Military Health System.

Sincerely,

A handwritten signature in black ink, reading "William Winkenwerder, Jr.", is positioned above the printed name.

William Winkenwerder, Jr., MD

Enclosure:  
As stated

cc:  
Representative Ike Skelton

## **Report to Congress**

### **Department of Defense Medicare-Eligible Retiree Health Care Fund**

This report responds to language contained in the FY 2001 National Defense Authorization Act Conference Report (106-945) regarding accrual financing for health care benefits for Medicare-eligible retirees. Congress requested a report on the strategies for determining the periodicity and amount of payments from the Department of Defense Medicare-Eligible Retiree Health Care Fund, including any recommendations and legislative provisions necessary to implement accrual funding.

The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 established Chapter 56 of Title 10 United States Code, which creates the DoD Medicare Eligible Retiree Health Care Fund (the Fund), effective October 1, 2002. Chapter 56 lays out the responsibilities for contributions to and payments from the Fund. It creates a Board of Actuaries who will determine the Fund's original unfunded actuarial liability and will set the methods and assumptions to be used by the Secretary of Defense to determine the Department's annual normal cost contribution. The Fund will be used to pay for health care services of Medicare-eligible military retirees, retiree family members and survivors.

OSD Health Affairs/TRICARE Management Activity (TMA) will be the proponent of the Fund and establish policies and procedures for payments from the Fund. The DoD Office of the Actuary, under the guidance of the Board of Actuaries, will provide actuarial estimates and valuations. The Defense Finance and Accounting Service (DFAS) will provide all financial and accounting services and manage the Fund. The Bureau of Public Debt (Treasury) will administer the Fund's investments.

#### **Payments into Fund:**

DoD makes contributions into the Fund throughout a member's period of military service, i.e., as the retired health care benefit is earned. DoD is responsible for paying the monthly normal cost contribution, which is an attributed portion of the present value of future Medicare-eligible retiree benefits expected to be paid from the Fund for today's active and reserve members. The Treasury makes an annual amortization payment on the Fund's original unfunded actuarial liability (the liability associated with military service prior to the adoption of accrual funding) and on subsequent actuarial gains and losses. The Fund also receives investment earnings from the assets of the Fund.

Based on the methods and assumptions adopted by the Board of Actuaries in July 2002, the FY 2003 DoD normal cost contribution is \$353 per month for full-time members and \$134 per month for part-time members. The estimated annual DoD contribution to the Fund in FY 2003 is \$7.4 billion. In September 2002, the Board of Actuaries determined that the original unfunded liability of the Fund, as of October 1, 2002, is \$406 billion and should be liquidated over a 50-year period with increasing payments. The unfunded liability amortization payment made to the Fund by the Treasury on October 1, 2002, was \$14.369 billion. This amount includes the liability for Medicare-eligible members and former members of the DoD uniformed services who are entitled to retired or retainer pay, and their eligible dependents who are Medicare-eligible.

## **Payments from Fund:**

The Department of Defense issued regulations to establish the methods for transferring amounts from the Fund to reimburse the applicable appropriations for care at military treatment facilities (MTFs) and for care purchased from non-DoD health care providers in July 2002. The General Accounting Office reviewed the regulations and issued a report to Congress and DoD which states, "DoD's regulations satisfy the legislative criteria for transfers from the Fund and appear to be adequate and provide a framework for the transfers to be implemented upon activation of the Fund" (GAO-02-1061R Health Care Fund Regulations (DOD), August 30, 2002).

Beginning in FY 2003, the Fund pays for all health care provided to military retirees, retiree family members and survivors eligible for Medicare in the Military Treatment Facilities (MTFs) and in the civilian sector. Current estimated payments from the Fund in FY 2003 are \$5.5 billion (\$1.2 billion for care in the MTFs and \$4.3 billion for civilian care).

The Fund will provide prospective payments to MTFs on a quarterly basis for Medicare-eligible care to cover inpatient, outpatient and pharmacy services. These prospective payments will be based on the projected value of health care delivered in the MTFs. The Fund will pay the Services' Defense Health Program (DHP) Operation and Maintenance (O&M) accounts through the TMA for Medicare-eligible beneficiaries' health care. The Fund will also pay the Services' military personnel (MILPERS) accounts for the appropriate portion of military labor associated with health care delivered in the MTFs. In the first year of Fund operations, the prospective payments will be equal to the amount that was reduced from the DHP budget in anticipation of payment from the Fund. The actual workload will be tracked on a periodic basis using the Military Health System Data Repository System to monitor proper payment from the Fund.

The Fund will pay for Medicare and TRICARE covered services in the civilian sector as second payer to Medicare for eligible beneficiaries who are enrolled in Medicare Part B. Fund payment for civilian care is based on bills from the civilian providers. When beneficiaries receive medical care, their doctor or hospital will file a claim with Medicare since Medicare, by law, must pay first. After the Medicare Fiscal Intermediaries (FIs) adjudicate and pay the claims, the FIs will forward the claims to the TRICARE Management Activity (TMA) for payment of the beneficiaries' coinsurance and deductibles plus any covered balance billings for non-participating providers. The TMA will withdraw required amounts from the Fund to pay the civilian claims on a daily basis. TMA will be responsible for consolidating and reconciling Fund payments with the actual cost of health care services provided.

The Fund also pays for TRICARE benefits not covered by Medicare. This includes payment for the pharmacy benefit, Medicare-eligible beneficiaries enrolled in the Uniformed Services Family Health Plan, and health care provided overseas.

## **Summary**

The FY 2001 NDAA significantly expands the DoD health care benefits of Medicare-eligible military retirees and their dependents and survivors. The establishment of accrual funding for this entitlement provides a source of funding to ensure adequate resources are available to pay

for this health care. The Department of Treasury established the Fund and the Department of Defense has developed the necessary regulations, accounting policies and procedures to implement the program.